



Executive Insights

Mapping the Paradigm Shift Towards the Digital Era in Southeast Asia’s Building & Construction Markets

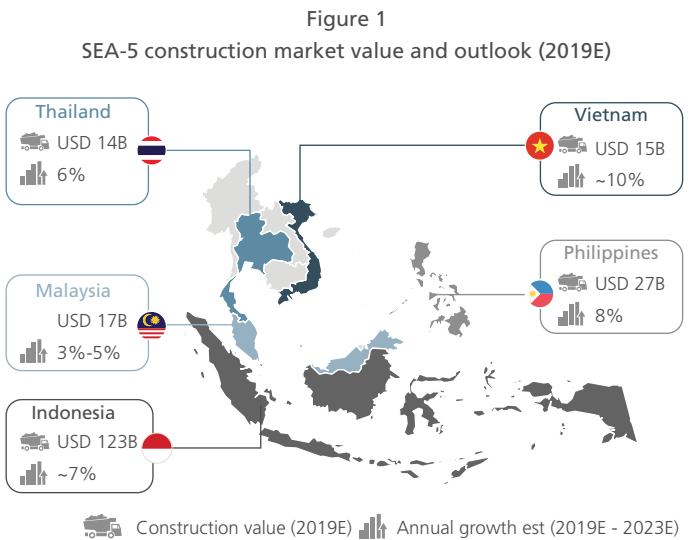
Is there an appetite for digital intervention amid the seemingly traditional brick-and-mortar construction materials industry of Southeast Asia (SEA)? Yes, according to L.E.K. Consulting’s recent building contractors’ survey. Given the inevitable generational shift in both distributors and the user base, and the propensity of younger generations to rely on digital tools, it is vital that building & construction companies consider the digital route as a means of growth in the SEA market.

L.E.K. recently conducted a survey of 300 builders and contractors across Malaysia, Indonesia and the Philippines to understand their purchasing habits and their receptivity towards online channels, as well as the extent to which construction players can leverage the potential digital appetite of their customers. Our survey uncovered a persistent theme: As with many other traditional industries in SEA, construction has been considered a straggler in terms of willingness to embrace disruptive ideas — in particular, digitisation. In part, this could be because builders in SEA do not perceive a tangible connection between digital innovation and improved customer experiences, much less new customer wins. In the face of such scepticism, it is natural to question whether the pursuit of digitisation can be a productive endeavour for the SEA building & construction industry.

In light of a generational shift, however, it is imperative that participants in the building & construction value chain in SEA consider developing an online strategy for the future. One trend indicates that change may be more forthcoming among this new wave of users: the increasing propensity of online purchasing. With mobile/smartphone penetration surging, we anticipate an overall paradigm shift towards digital intervention in SEA’s construction value chain.

Growth outlook in SEA-5 countries’ construction markets

Robust growth in the region is expected to benefit the entire construction value chain in SEA-5 (Indonesia, the Philippines,



Sources: BMI, L.E.K. analysis

Mapping the Paradigm Shift Towards the Digital Era in Southeast Asia’s Key Building & Construction Markets was written by **Manas Tamotia**, Partner, with analytical support from **Alex Berg**, Consultant; **Kelly Wong**, Consultant; and **Diana Ho**, Associate Consultant. Manas, Alex, Kelly and Diana are based in Singapore.

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Malaysia, Vietnam and Thailand, as shown in Figure 1), driven by a shared set of key factors that include robust economic growth; a rapidly expanding middle class, which is driving private expenditure; and increases in foreign investments. China's Belt and Road Initiative, for example, has been making significant investments in this region.

Infrastructure remains the main focus for most of these countries, part of several nation-building priorities to improve connectivity and modernise. However, both residential and non-residential (commercial or industrial) development efforts have also benefitted, especially in the Philippines, Indonesia and Malaysia.

- Philippines:** After coming to office in 2016, President Rodrigo Duterte launched an infrastructure buildout campaign — dubbed Build! Build! Build! — that aims not only to develop new infrastructure but also to meet housing backlog over the next 10 years. Sustained growth in the business process outsourcing and online gaming industries, as well as continued cash inflows from overseas Filipino workers' remittances, has created a favourable environment for construction activity in residential and commercial sectors of the economy.
- Indonesia:** Infrastructure continues to be the backbone of the Indonesian construction market as President Joko Widodo returns for a second term, following his victory in the April 2019 election. Greater Jakarta and smaller cities alike will continue to witness more housing development as Indonesia aims to develop its rural areas. The planned establishment of the new national capital could also drive significant construction activity.
- Malaysia:** The postponement or cancellation of several large infrastructure projects had led to more muted expectations for the country's construction market. However, infrastructure projects are now being revived, but growth will be sustained by demand from private housing, particularly in the affordable, low-cost housing sector, where costs can be partly shouldered by the government.

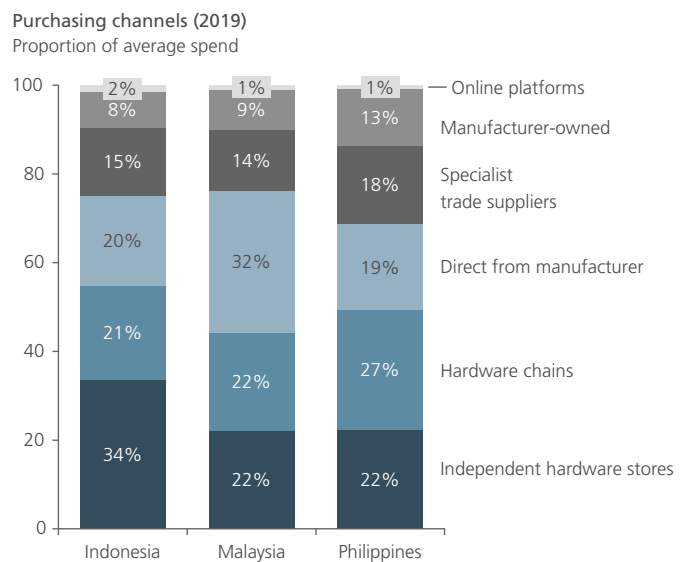
Purchasing channels for contractors and builders

Construction materials in SEA can be sold directly or indirectly in various store types and settings. The region also supports a spectrum of builders, ranging from small homebuilders to small and medium-sized contractors to large construction players. Yet the market remains largely fragmented, and construction players are traditionally known to be quite reluctant to embrace new ideas. These factors are key to understanding the procurement habits and distribution channel dynamics that exist in SEA.

- Independent hardware stores:** These are mostly comprised mostly mom-and-pop shops, which are very small in scale and have a multi-product offering. They are the go-to option for small homebuilders and individual contractors due to their accessibility and the convenience of obtaining a variety of materials in one location. Often these stores may also provide credit for their repeat customers.

- Specialist trade suppliers:** These often provide a specialised product offering, such as cement and concrete, doors, windows, electrical, plumbing, or lighting. Specialist contractors prefer going to such suppliers, as they typically have deeper technical knowledge.
- Hardware chains:** These have a similar offering and concept to those of independent hardware stores, but also benefit from their network of multiple locations. They are likely to have a more sophisticated distribution system across multiple stores.
- Manufacturer-owned retail outlets:** These physical brick-and-mortar stores run by manufacturers showcase their own products. This model is more consumer oriented and thus more common in certain categories such as sanitaryware and kitchens.
- Direct from manufacturer:** Direct procurement from manufacturers is typically preferred by larger construction companies that already have an established contractual relationship with material suppliers.
- Online platforms:** For platforms hosted by a third party or owned by a manufacturer or hardware store, purchases typically are smaller in scale, although the option to procure on a larger scale is available. Examples of third-party hosted platforms include Alibaba and Lazada.

Figure 2
Channel preference

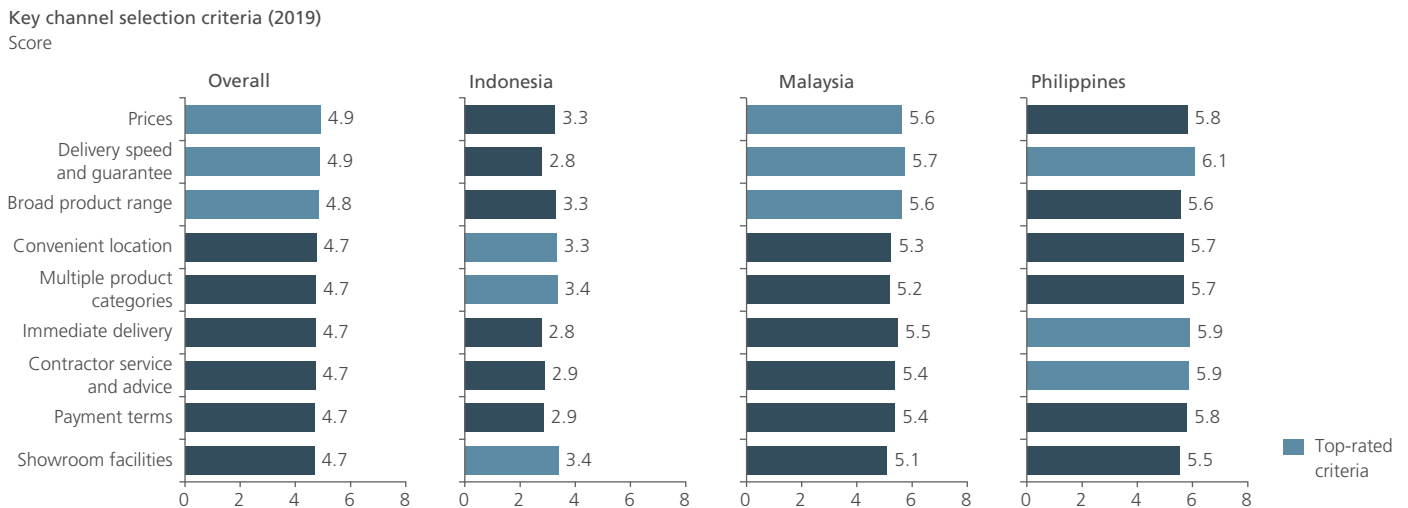


Source: L.E.K. SEA Contractor Survey 2019

Our survey indicates a continued reliance on and preference for traditional purchasing channels and platforms, with 50% or more of purchases made in independent or chain hardware stores (Figure 2).

Online purchases of building materials are almost non-existent in the region at present. Reliance on conventional channels is partly due to the entrenchment of traditional modes of doing business but is also driven by lack of credible online options.

Figure 3
Channel selection criteria



Source: L.E.K. SEA Contractor Survey 2019

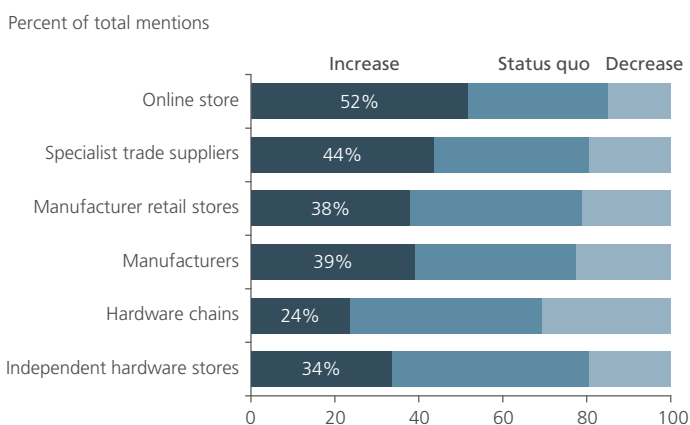
Contractors in this region prefer channels that showcase products (e.g. showrooms), are conveniently located and offer products across multiple categories (Figure 3). Each country displays certain preferences. For instance, Indonesian builders favour showroom facilities with product displays that permit them to touch the product or gauge its overall quality, when compared with other channel selection criteria. On the other hand, the Filipino market particularly values physical channels because they permit builders to receive verbal product recommendations and direct advice from contractors.

Predicted shifts in consumption patterns

Although current consumption patterns signal a propensity towards traditional channels, we believe that in the context of anticipated growth in these markets and the digital appetite of the next-generation workforce, opportunity for digital channels exists in these three countries.

Figure 5

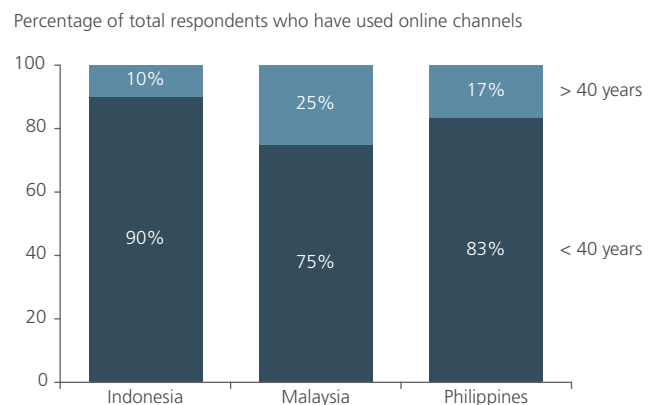
Overall future purchasing habits of customers by channel (2019)



Source: L.E.K. SEA Contractor Survey 2019

Figure 4

Age profile of respondents who used online channels (2019)



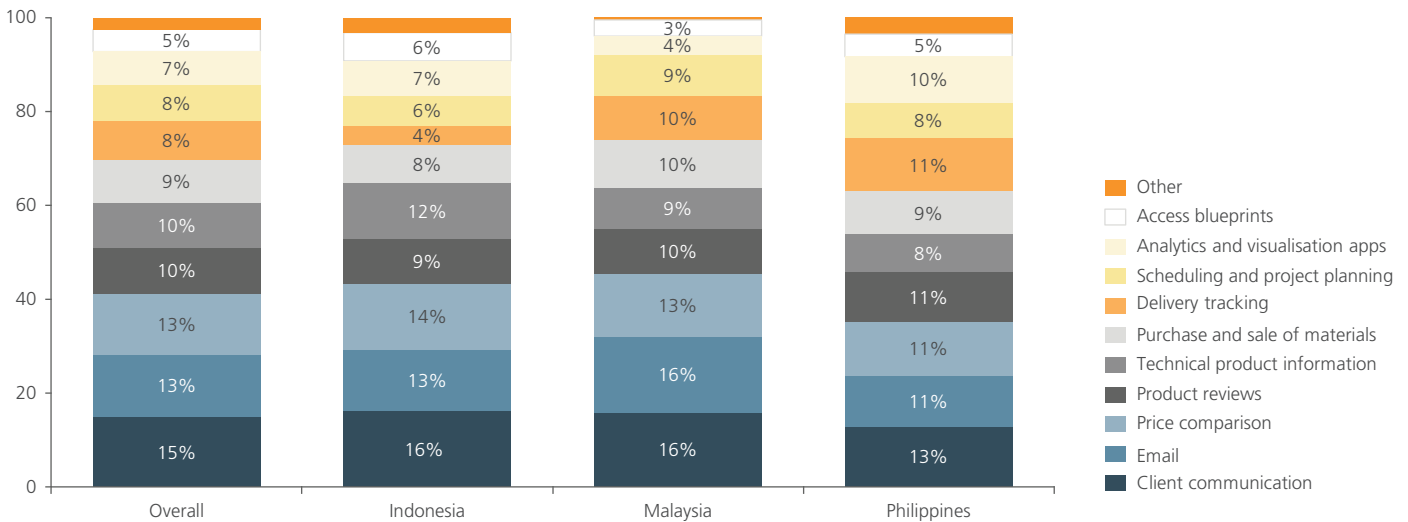
Source: L.E.K. SEA Contractor Survey 2019

Survey respondents who indicated they have made a purchase via online channels are mostly 40 years old and younger — 75% to 90% in the three countries discussed earlier (Figure 4). This exposes a potential generational shift and a resulting paradigm shift towards the digital era as the industry observes the continuous participation of, and eventual takeover by, members of Gen X and younger generations while their predecessors phase into retirement.

The generational shift is reflected in our survey — respondents indicated they are likely to increase their usage of online stores as compared to other channels in the future (Figure 5).

The continued increase in smartphone penetration rates in these countries is expected to drive both the presence and the awareness of online channels, and is likely to influence industry participants' buying behaviour.

Figure 6
Main purposes of digital devices for work (2019)



Source: L.E.K. SEA Contractor Survey 2019

However, online commerce is only a small part of the digital story. Builders and contractors show a high degree of digital engagement. For example, aside from basic email communication, respondents across all three countries in the survey acknowledged their reliance on devices for technical product information, product reviews and price comparison (Figure 6).

Catering to a new generation of builders

In light of the likely generational shift and the rising importance of digital for users — i.e. contractors and builders — participants in the building & construction products value chain must adopt a digital mindset. L.E.K. has developed a framework to help these value chain participants (from manufacturers to construction firms) undertake their digital journey, recommending that firms focus on four areas:

- **Digital product:** Employ technology to enhance existing products and services or to create new businesses. In 2014 in the US, Home Depot acquired Blinds.com so it could sell window coverings directly to customers, bypassing the traditional distribution chain and building itself a significant ecommerce business.
- **Digital customer experience:** Leverage technology to improve the way businesses engage, transact with and support customers. Australia's Rawson Homes provides a tool that allows customers to build their dream home while visualising and getting a feel for the various design options available to them.

- **Industry 4.0:** Leverage technology to optimise supply chains, manufacturing and other operations. For instance, use of next-generation building information modelling (BIM) in construction planning, design and operations significantly improves efficiency and reduces on-site waste.
- **Digital ways of working:** Use technology and organisational best practices to make better decisions and work more effectively. For example, L.E.K. recently helped an asset rental business leverage a range of disparate data sets to calculate a bespoke profitability measure for individual branches, products and customers. Working with us, the client was then able to devise a digital transformation program, embedding new digital data and analysis to inform decision-making on pricing, account management, branch formats and network configuration.

Future opportunities are abundant within the SEA construction market's digital landscape, where a transition in the workforce towards a younger demographic represents not just an underlying need, but also a significant untapped commercial opportunity. The market is poised for growth, but there is also a role for operators to play in increasing awareness and availability of digital solutions. Key considerations for companies building a digital strategy in this space will include developing strategic product portfolios to align with unmet needs, collaborating with capable local partners on R&D or commercial issues, and building internal expertise.

About the Author



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Manas Tamotia is a Partner in L.E.K.'s Southeast Asia & India practice, and head of the Singapore office. He has over 15 years of experience in strategy consulting and M&A across Asia-Pacific and the Americas. Manas works with industrial products, particularly building & construction sector companies, on growth strategies, organisational restructure, M&A, and tactical strategies such as pricing, distribution, channel management and revenue management.

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